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*This is not a  
good statement -  
Substance is in order  
10/4/64*

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Ch D/M and  
Ch M/FP have  
read.*

## THE USSR AND MIDDLE EAST OIL

The denial of Middle East oil to the western world may be of primary strategic interest to the USSR, but there is little Moscow can do, short of risking conflict, to halt such deliveries. Of primary importance, and recognizable to the USSR, is the present relationship between the Middle East as a supplier and Western Europe as a consumer.

The producing countries which receive as their share of oil profits at least \$1,200,000,000 in foreign exchange annually would be unwilling to risk loss of this income. The USSR (and the Sino-Soviet bloc) as a net exporter of oil, could not absorb Middle East oil nor afford to replace western purchases by a subsidy.

Although the West would be seriously handicapped by a temporary loss of Middle East oil, the producing states are aware that alternate sources are available to prevent the collapse of West European economies for lack of fuel.

The USSR probably will elect to avoid any overt attempt to stop the flow of oil to Western Europe. While its present policy of heckling the oil concessionaires as exploiters of Middle East resources for personal profit does not deny oil to the West, it does foster the growth of discontent in oil producing countries. This discontent, reflected in political

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instability and demands for the revision upward of profit-sharing, is a source of harassment to the oil companies. The USSR for a variety of economic and political reasons probably will also continue to encourage dissident challenges to the present leadership of oil producing states. Although successful coup d'etats may not even temporarily end the oil flow, less internationally responsible elements are likely to come to power who complicate the operations of the oil concessionaires. In this respect, however, the USSR must also consider the policies of Nasir, who, while interested in reducing western influence in the Middle East, does not wish to threaten oil revenues or replace western influence with that of communism.

Although Moscow denies it advises the nationalization of oil resources, it has and does point out that nationalization is a "legitimate means of strengthening the national economy." Moscow's hammering away along these lines probably will continue popular ferment and uneasiness among oil concessionaires and users of this oil.

Specific Soviet actions and considerations:

1. Through influence, cause nationalization of oil, producing and refining facilities.
  - a. Producing states, to protect their oil incomes, probably would negotiate with concessionaires and would

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not permit, as was the case in Iran, oil production to cease.

b. Because the oil producing states participate only to the extent of receiving fees from concessionaires, the oil distribution system - tankers, sales facilities and markets - remain under the control of the oil companies and could not be seized by the producing states.

c. The USSR probably could provide enough technicians to aid experienced nationals in the production and refining of oil, but the USSR does not have tankers or facilities to deliver oil to the established markets. The USSR and producing states probably could attract personnel from Free World countries such as West Germany and Italy, as well. Moreover, it is also possible that some of the large number of tankers now chartered by the West to carry Middle East oil could be hired by the USSR. Existing stocks in the Middle East of materials for oil well and pipeline operations, along with Soviet replacement capability probably would permit uninterrupted oil production. The operation of the more complicated western-built refineries would constitute a greater problem, but their operation chiefly affects supplies of

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products to the Middle East itself.

2. Through influence, close pipelines and/or the Suez Canal.

a. Closure of the canal without cause would affect Egypt's international prestige and reduce Egyptian revenues from canal fees. Other transit countries would also lose revenues.

b. Only temporary disruption of supplies to Western Europe, as was the case during November 1956-May 1957, would ensue.

3. Through influence on dissidents and perhaps government officials, to halt mining operations.

a. Producing countries would not forego the revenues received from oil deliveries for more than a short period. There are no alternate markets in which to sell the oil and the bloc does not have sufficient resources to buy up production.

b. On the other hand, western consumers could, at some loss of foreign exchange, buy oil in the western hemisphere.

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